



# Fiscal Outlook for FY 17 – FY 18

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STUDY SESSION – MARCH 8, 2016

# 2015 Accomplishments

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- Civic Center
- Long Range Property Management Plan
- Project Labor Agreement & LBFirst
- Proactive Rental Housing Inspection Program (PRHIP)
- Unemployment rate reached a seven-year low in August 2015
- Functionally ended Veterans homelessness
- 1,191 affordable housing units were preserved or constructed
- 999 new residential units were entitled, not including the Civic Center
- Issued construction permits with project values totaling \$219 million
- 100% of beaches received “A” grades for water quality

# Innovation & Efficiency Improvements

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- LED Streetlight Retrofit program
- Bloomberg Innovation Team
- Technology and Innovation Commission
- Smart parking meters
- Automated Metering Infrastructure (AMI) project
- Street Sweeping Optimization study
- Taxi cab regulations
- Redesigned City website and launched OpenLB
- New technology systems underway:
  - ERP (Financial and HR systems)
  - Business license system
  - Electronic Plan Check system

# Economic Development Accomplishments

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- Major building projects completed, underway, or in development:

Pike Renovation

Douglas Park

The Current

Pine Square/Pacific Court

Riverwalk

Hooman auto dealership relocation

Middle Harbor (Port)

Mercedes Benz

Edison Lofts

Parc Broadway

Cabrillo Gateway Apartments

Numerous residential projects

CityPlace remodel

- New businesses:

Virgin Galactic

Nautilus International Holding Co.

United Pacific Gas

New Pike retail outlets

New restaurants

United Technology Institute

Turbo Air

Aldi (market)

New microbreweries

New Queen Mary lease

# Strong Fiscal Discipline

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- \$134 million in General Fund cut since FY 07
- Almost 700 General Fund positions cut since FY 07
- Partnered with employees to save \$250 million in pension costs over 10 years
- Held line on new spending to minimize future budget issues
- Invested in efficiency improvements, critical infrastructure, technology, and innovation to reduce operating costs
- Saved FY 14 and FY 15 surpluses to strengthen future finances
- Focused on economic development – new businesses and housing

# Review of FY 15 and FY 16 budgets

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- FY 15 ended the year with a \$4.2 million surplus
- FY 16 budget
  - > Is balanced as a result of discipline and prudent decisions
  - > Contained no service reductions
  - > Funded police and fire academies; conducting two police academies using FY 15 surplus
  - > Continued to address outstanding financial issues and cost savings
  - > Projected structural surplus of \$675,000 for FY 16; appears to be on target
  - > Is being carefully monitored due to impact of oil revenues

# Revenue Items Impacting FY 17 – FY 18

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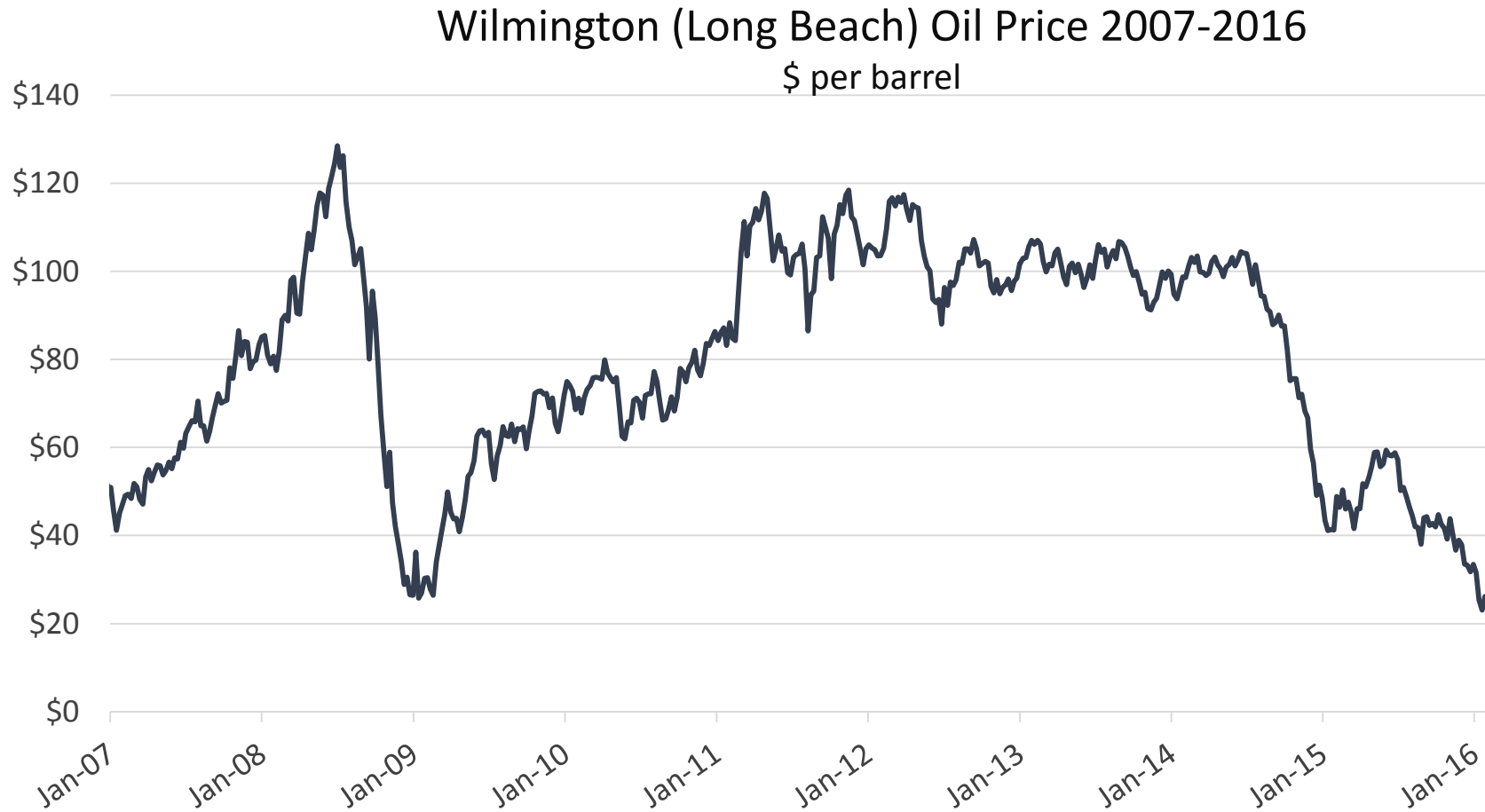
- Positive Impacts

- > Sales Tax Growth – due to strong economy, CRC Services, Office Depot, Hooman, Worthington
- > Transient Occupancy Tax Growth – due to strong economy and Convention Center business
- > Property Tax Growth – higher residual property tax from RDA dissolution
- > First Responder fee – new fee implemented
- > Other Revenue Growth– Electric UUT, Electric Pipeline, lease revenue from The Pike

- Negative Impacts

- > Impact of oil prices
  - Uplands Oil, Prop H, Barrel Tax, and Tidelands Revenues
  - Property Tax -reduced value of oil related property
  - Sales Tax – impact of price of oil/gasoline on service stations
- > Gas Pipeline franchise – lower natural gas prices

# History of Oil Prices



# Oil's Dramatic Revenue Decline

- Projected \$26.5 million reduction in Uplands revenue and a \$32.8 million reduction in Tidelands revenue at \$35 per barrel in FY 17 compared to FY 14 when it was close to \$100 per barrel
- General Fund structural funding of \$17.5 million used to be about 4.4% of budget and now at \$5.8 million it is just 1.4% of budget

**Oil Revenue Projections**

(In millions of \$)	FY 14 Actual	FY 15 Actual	FY 16 Projected	FY 17 Projected	FY 18 Projected
Price Estimate*	\$99/bbl	\$55/bbl	\$35/bbl	\$35/bbl	\$40/bbl
Uplands	32.3	15.7	7.4	5.8	6.1
Tidelands	42.7	18.0	9.4	9.9	12.7

\* Revenue is now very dependent on factors in addition to price per barrel. Projections are uncertain

# Expense Items Impacting FY 17 – FY 18

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- Positive Impacts

- > Open Space Bonds Debt Service - to be covered by RDA City loan repayment per State
- > Workers Compensation – due to reduced injury claims

- Negative Impacts

- > Pension Costs – due to paying off unfunded liabilities
- > RMD Termination – to be paid from First Responder Fee revenue
- > County Park Levy Funded Maintenance – sunset in FY 17, now a General Fund expense

- Enhancements

- > New and expanded Parks and Recreation facilities/parks
- > Michelle Obama Branch Library staffing
- > Minimum Wage implementation (pending)

# Assumptions and Uncertainties

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- Assumes oil price per barrel at \$35 in FY 16 and FY 17 and \$40 for FY 18. However, City oil revenue is now also very dependent on uncertain production and oil production volume and drilling
- Assumes the US economy will continue to be good, but there seems uncertainty in world economy that could impact US economy
- Assumes no changes in service levels
- Does not assume any raises or take-aways in current or upcoming labor negotiations
- Does not use revenue from the potential adoption of the tax ballot measure

# Revenue Increase Outlook for FY 17 – FY 18

## Incremental Increase in General Fund Revenue

Changes (In millions of \$)	FY 17 Projected	FY 18 Projected	Cumulative
Uplands Oil Transfer	(5.7)	0.3	(5.4)
Property Tax	4.6	4.0	8.6
Transient Occupancy Tax (Hotel)	2.0	0.2	2.2
Sales Tax	1.9	1.7	3.6
Utility Users Tax	1.7	0.8	2.5
Other Revenue Changes (e.g., VLF, Electric Pipeline Franchise)	2.6	0.6	3.1
<b>Total Revenue Impact</b>	<b>7.1</b>	<b>7.5</b>	<b>14.7</b>

# Expense Increase Outlook for FY 17 – FY 18

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## Incremental Increase in General Fund Expense

Changes (In millions of \$)	FY 17 Projected	FY 18 Projected	Cumulative
CalPERS Pension Costs	6.1	5.0	11.1
Health Benefits	1.8	1.3	3.1
Salary Growth (e.g., steps, turnover, etc.)	0.9	0.8	1.7
Approved Initiatives (e.g., Min Wage, Michelle Obama Library)	1.0	0.3	1.2
Other Miscellaneous Changes (e.g., RMD, Debt Service, MOUs, Liabilities)	3.9	4.8	8.8
<b>Total Expense Impact</b>	<b>13.7</b>	<b>12.2</b>	<b>26.0</b>

# Fiscal Outlook for FY 17 – FY 18

- Revenue growth citywide has helped to mitigate the decline in oil revenue resulting in little change to the outlook.

Changes (In million of \$)	FY 17 Projected	FY 18 Projected	Cumulative
Total Revenue Change	7.1	7.5	14.7
Total Expense Change	(13.7)	(12.2)	(26.0)
Saved Surplus from FY 16	0.7		
<b>Projected Surplus/(Shortfall)</b>	<b>(5.9)</b>	<b>(4.7)</b>	<b>(10.6)</b>
<b><i>Prior Updated Projection (November)</i></b>	<b><i>(5.1)</i></b>	<b><i>(5.2)</i></b>	<b><i>(10.3)</i></b>

- Projection will be updated for the FY 17 Proposed Budget and will likely change

# Beyond FY 18

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- Accuracy of projections beyond FY 18 becomes more uncertain and is dependent on a variety of factors
- Potential changes impacting future projections will be monitored:
  - > New economic development
  - > Additional growth in property tax
  - > Increased tourism and convention business
  - > Slow recovery in price of oil
  - > Continued pension costs due to CalPERS' change in its investment strategy
  - > Other costs including health care and new civic center
  - > Other cost savings such as debt service including paying off pension obligation bonds

# Current Year Approach (FY 16)

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- Minimize off-budget new or added structural costs in mid-year FY 16, so decisions are made in context of overall FY 17 budget.
- Implement department savings targets of \$1.9 million in the General Fund
- Minimize actions that increase costs, divert staff to new services, or adversely impact revenues.
- More strictly review filling of positions, and limit other discretionary spending in General Fund
- Closely monitor spending and revenues

# FY 17 Budget Approach

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- Service enhancements should have offsetting reductions
- Continue to develop efficiencies and cost reductions
- Focus one-time expenditures on reducing costs and meeting critical needs
- Focus on economic development to grow long-term revenue base and identify potential new revenues
- Departments to submit expense and revenue adjustments which allow flexibility in balancing the budget

# Summary and Next Steps

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- City Staff will continue to refine financial projections throughout the budget development process
- The projected shortfall of \$5.9 million in FY 17 equates to 1.5% of the departmental budgets. This situation could have been far more difficult but for the Mayor's and City Council's discipline and fiscal restraint
- We need to be focused on our core services and public safety given our limited resource capacity
- City Manager will develop a structurally balanced budget notwithstanding the outcome of the tax ballot measure
- City staff will use citizens survey and budget challenge to solicit community engagement

# FY 17 Budget Timeline

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- > March 8 Fiscal Outlook City Council Presentation
- > March 9 Instructions to Departments
- > By July 3 Submittal of Proposed Budget to Mayor
- > By August 2 Mayor Submits Proposed Budget to City Council
- > August Community Budget Meetings (TBD)
- > August Budget Oversight Committee Meetings (TBD)
- > August 2 Budget Meeting (tentative)
- > August 9 Budget Meeting (tentative)
- > August 16 Budget Meeting (tentative)
- > August 23 Budget Meeting (tentative)
- > September 6 Budget Hearing and 1<sup>st</sup> adoption date
- > September 13 Budget Hearing; 2<sup>nd</sup> adoption date



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